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RUEHBU/AMEMBASSY BUENOS AIRES 1760  
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RUEHPE/AMEMBASSY LIMA 1051  
RUEHSP/AMEMBASSY PORT OF SPAIN 3599  
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RHEBAAA/DEPT OF ENERGY  
RUCNDT/USMISSION USUN NEW YORK 1000  
RUCPDO/DEPT OF COMMERCE  
RUEATRS/DEPT OF TREASURY  
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 CARACAS 000921

SIPDIS

ENERGY FOR CDAY AND ALOCKWOOD  
NSC FOR JSHRIER

E.O. 12958: DECL: 07/02/2018

TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)

SUBJECT: HARVEST FINALLY BEGINS TO REAP WHAT IT HAS SOWN

REF: A. CARACAS 108

[1](#)B. CARACAS 610

[1](#)C. CARACAS 565

[1](#)D. CARACAS 491

[1](#)E. CARACAS 912

Classified By: Economic Counselor Darnall Steuart for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: After spending months in legal limbo, U.S. oil company Harvest has received all of its dividends through 2007 from its joint venture company Petrodelta. Harvest's drilling program has been highly successful and it has worked out a system whereby Petrodelta can secure material and services directly rather than via PDVSA's procurement affiliate. A Harvest subsidiary is considering whether it should form a joint venture services company with PDVSA. According to PDVSA Services officials, Schlumberger is on the verge of forming a joint venture services company with PDVSA for four basic well services. Rumor has it that leading domestic engineering company Inelectra has agreed to be purchased by the BRV. We remain concerned about the formation of joint venture service companies because of a lack of transparency as well as uncertainties arising from an apparant willingness to guarantee market share to the new joint ventures. In addition, it is not clear if the new joint ventures will utilize up-to-date technology. END SUMMARY

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THE SUN BEGINS TO SHINE FOR HARVEST  
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[1](#)2. (C) Econ Counselor and Petroleum Attache (Petatt) met with Harvest Vinccler Vice President and General Manager Mauricio di Girolamo (strictly protect throughout) on July 1 to discuss Harvest's current operating environment. di Girolamo began the meeting by stating that Harvest recently received 73 million USD in dividends from its joint venture Petrodelta. The payment covered the period from April 2006 to December 2007. The dividend payment has been a source of tension between PDVSA and Harvest for some time. di Girolamo previously told Petatt that Harvest President James Edmiston

had a stormy meeting with CVP President Eulogio Del Pino in January 2008 over the payment of dividends and the reimbursement of operating expenditures. NOTE: CVP is the PDVSA affiliate tasked with dealing with private sector oil companies. END NOTE). At the time, PDVSA promised to pay Harvest its dividends by mid-February.

13. (C) di Girolamo said PDVSA has also stated it is open to paying dividends on a quarterly basis rather than at the end of the fiscal year. The dividends would be based on monthly invoices. Once the joint venture's books were closed at the end of year, adjustments would be made to compensate for over or under-payment.

14. (C) As reported in Reftel B, Harvest fought an energetic campaign to amend the terms of the new windfall profits tax. di Girolamo admitted that the campaign was a failure. Due to the opaque nature of the tax, the joint ventures took a wide variety of approaches for accounting for the tax in the second half of April and May. PDVSA is currently working on a standard method of accounting for the tax so that reporting will be uniform in June. In a partial victory for the private sector, di Girolamo stated PDVSA has accepted the argument that production for the purpose of royalties is not subject to the tax.

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DRILLING CAMPAIGN BEGINS TO TAKE OFF  
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15. (C) Additional good news for Harvest has come in the form  
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of two highly successful new wells. Despite the fact that the success is the result of Harvest's expertise, the company has gone to great lengths to give credit to its PDVSA partners in Petrodelta. di Girolamo stated PDVSA is continuing to press all of the joint ventures for increased production (Reftel A). As a result of its recent successes, relations with PDVSA have improved recently.

16. (C) Until recently, a major impediment to Petrodelta's drilling program was an inability to procure key materials. During the January meeting with Del Pino, Harvest officials complained that they could not maintain the drilling program due to the fact that the PDVSA procurement affiliate was unable to provide material in a timely manner. Del Pino was enraged at the procurement officials and berated them in front of the Harvest executives.

17. (C) di Girolamo stated Harvest overcame the problem by handling procurement directly through Petrodelta. Despite the requirement that a PDVSA affiliate must handle all joint venture procurement, Harvest secured a deal whereby urgent requests can be handled by Petrodelta. In order to avoid damaging its relationship with PDVSA, Harvest dutifully runs all procurement requests by the PDVSA affiliate. When the affiliate states that it cannot handle a particular request in a timely manner, Harvest in the form of Petrodelta tells the affiliate that it will take care of the matter itself. When asked how Petrodelta pays for its materials and services given the fact that PDVSA promptly removes all cash from the joint ventures, di Girolamo replied that Petrodelta makes a cash call on CVP for the necessary funds. He added that CVP has promptly met the cash calls each time they have been made.

18. (C) Although this informal system is a vast improvement over the previous one, di Girolamo complained that endless delays are still his biggest headache. He noted that he no longer gives the Harvest board of directors timelines for major projects since there is no way to reasonably estimate when decisions will be made and implemented.

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SERVICE COMPANY JOINT VENTURES  
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19. (C) As reported in Reftel C, PDVSA plans to create new

joint venture companies for the petroleum services sector. When asked about the new joint ventures, di Girolamo stated Harvest is interested in participating. He stated a Harvest affiliate, Fusion Geophysics, was responsible in large part for the success of Petrodelta's two new wells. The fact was not lost on PDVSA officials and they approached Harvest about using Fusion for PDVSA projects. Unfortunately, due to the byzantine nature of the PDVSA contracting system, the registration process for Fusion was extremely onerous. Harvest managed to get around the problem by making its Venezuelan partner Vinccler an agent for Fusion. As a result, Fusion can piggyback on Vinccler's status as a PDVSA contractor.

¶10. (C) PDVSA officials then asked if Fusion would be interested in forming a joint venture company with PDVSA to provide geophysical services. Harvest responded positively and di Girolamo met recently with PDVSA Services officials to discuss the creation of the joint venture. During the meeting, the PDVSA Service officials stated PDVSA is well aware of the fact that it cannot form joint ventures for the entire spectrum of petroleum services and materials. However, it is interested in forming them in key areas.

¶11. (C) The officials then surprised di Girolamo by claiming that PDVSA is on the verge of forming a joint venture company with Schlumberger to provide four basic well services. The

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officials did not specify which services were covered. Schlumberger has told us in the past that it is willing to consider a joint venture but that it will not give up proprietary technology for free or in an ad-hoc manner (Reftel D). Other companies have expressed similar concerns. di Girolamo stated Harvest would be willing to license Fusion's technology but it has no interest in giving technology to the joint venture.

¶12. (C) A Halliburton executive told Economic Counselor and Petatt on July 1 that he did not believe that his company would be interested in contributing technology to a joint venture. He stated one option would be to provide technology that was close to being out-of-date and then charging the joint venture fees for servicing the technology.

¶13. (C) When asked about recent rumors that the BRV planned on purchasing major Venezuelan engineering companies (Reftel E), di Girolamo replied he had heard that Inelectra had agreed to be purchased by the BRV. He was not sure if the BRV was purchasing 60 or 100% of the company's shares. When Econ Counselor asked if Inelectra employees would be fired for holding unacceptable views, di Girolamo said he asked PDVSA officials the same question. They replied that Inelectra employees would not be vetted for their political views. di Girolamo opined that it made no sense to fire employees for their political beliefs since almost all of an engineering company's value is its human capital.

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COMMENT  
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¶14. (C) We remain concerned over the formation of joint venture companies in the services area. Since PDVSA controls the entire market either directly or via a majority stake in the various joint ventures, guaranteeing the new service joint ventures a 30% stake in individual markets raises numerous questions regarding transparency and corruption. In addition, given the various comments of service company representatives, it does not sound as if the service joint ventures will employ the latest in technology. Even if they did, different field conditions often require different technologies for the same processes. We can easily see PDVSA trying to force operations managers to employ a joint venture's technology despite the fact that it is inappropriate for conditions.

DUDDY